



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

**Consolidated Financial Statements (Unaudited)
For the year ended March 31, 2014**

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2014, and all information contained in these statements rests with the management of the Department of Agriculture and Agri-Food Canada. These consolidated financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these consolidated financial statements. Some of the information in the consolidated financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of Agriculture and Agri-Food Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Agriculture and Agri-Food Canada's Departmental Performance Report, is consistent with these consolidated financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the Financial Administration Act and other applicable legislation, regulations, authorities and policies.

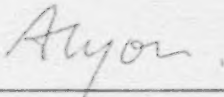
Management seeks to ensure the objectivity and integrity of data in its consolidated financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Agriculture and Agri-Food Canada and through conducting an annual assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

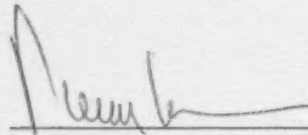
A risk-based assessment of the system of ICFR for the year ended March 31, 2014 was completed in accordance with the Treasury Board Policy on Internal Control and the results and action plans are summarized in the annex.

The effectiveness and adequacy of Agriculture and Agri-Food Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Agriculture and Agri-Food Canada's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The consolidated financial statements of Agriculture and Agri-Food Canada have not been audited.



Andrea Lyon, Deputy Minister



Pierre Corriveau, Chief Financial Officer

Ottawa, Canada
August 27, 2014

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Financial Position (Unaudited)

As at March 31

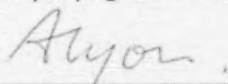
(in thousands of dollars)

	<u>2014</u>	<u>2013</u>
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 909,307	\$ 1,113,025
Vacation pay and compensatory leave	26,372	28,966
Deferred revenue (Note 5)	12,604	13,983
Employee future benefits (Note 6)	35,452	77,619
Other liabilities (Note 7)	<u>80,261</u>	<u>72,205</u>
Total liabilities	1,063,996	1,305,798
Financial assets		
Due from Consolidated Revenue Fund	921,898	1,100,631
Accounts receivable and advances (Note 8)	61,176	82,885
Loans receivable (Note 9)	<u>342,878</u>	<u>339,253</u>
Total gross financial assets	1,325,952	1,522,769
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 8)	(13,908)	(20,487)
Loans receivable (Note 9)	<u>(342,878)</u>	<u>(339,253)</u>
Total financial assets held on behalf of Government	(356,786)	(359,740)
Total net financial assets	<u>969,166</u>	<u>1,163,029</u>
Departmental net debt	<u>94,830</u>	<u>142,769</u>
Non-financial assets		
Prepaid expenses and inventory	3,563	3,624
Tangible capital assets (Note 10)	<u>374,588</u>	<u>375,401</u>
Total non-financial assets	378,151	379,025
Departmental net financial position (Note 11)	\$ <u>283,321</u>	\$ <u>236,256</u>

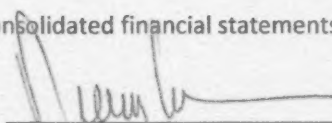
Contractual Obligations (Note 12)

Contingencies (Note 13)

The accompanying notes form an integral part of these consolidated financial statements.



Andrea Lyon, Deputy Minister



Pierre Corriveau, Chief Financial Officer

Ottawa, Canada

August 27, 2014

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Operations and Departmental Net Financial Position (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2014 Planned Results	2014	2013
EXPENSES			
Business Risk Management	\$ 1,300,551	\$ 1,310,648	\$ 1,372,548
Internal Services	390,686	358,196	441,426
Science, Innovation and Adoption	320,163	366,271	307,428
Trade and Market Development	176,068	133,974	264,021
On-Farm Action	71,307	89,466	112,761
Food Safety and Biosecurity Risk Management Systems	86,042	81,618	90,323
Environmental Knowledge, Technology, Information and Measurement	33,934	59,489	81,776
Agri-Business Development	116,897	49,251	69,196
Rural and Co-operatives Development	2,852	2,378	15,367
Canadian Pari-Mutuel Agency	8,531	8,427	9,223
Regulatory Efficiency Facilitation	16,350	10,536	11,630
Farm Products Council of Canada	2,433	2,664	2,866
Expenses Incurred on behalf of Government	(14)	(71)	(15)
	2,525,800	2,472,847	2,778,550
REVENUES			
Crop Re-Insurance Fund	77,493	80,562	80,403
Sale of goods and services	70,422	72,905	71,927
Interest	11,729	18,516	12,143
Joint project and cost sharing agreements	6,227	6,246	5,535
Gain on disposal of assets	5,500	1,690	342
Revenues earned on behalf of Government	(107,633)	(115,886)	(106,779)
	63,738	64,033	63,571
Net cost from continuing operations	2,462,062	2,408,814	2,714,979
Transferred operations (Note 15)			
Expenses	-	-	431
Net cost of transferred operations	-	-	431
Net cost of operations before government funding and transfers	2,462,062	2,408,814	2,715,410
Government funding and transfers			
Net cash provided by Government	2,534,207	2,565,098	2,699,193
Change in due from Consolidated Revenue Fund	(94,726)	(178,733)	25,409

Services provided without charge by other government departments (Note 14)	79,767	69,479	73,474
Transfer of assets from other government departments	-	36	448
Transfer of assets and liabilities to other government departments	<u>-</u>	<u>(1)</u>	<u>(417)</u>
Net cost of operations after government funding and transfers	(57,186)	(47,065)	(82,697)
Departmental net financial position - Beginning of year	208,131	236,256	153,559
Departmental net financial position - End of year	<u>\$ 265,317</u>	<u>\$ 283,321</u>	<u>\$ 236,256</u>

Segmented information (Note 16)

The accompanying notes form an integral part of these consolidated financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Change in Departmental Net Debt (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2014 Planned Results	2014	2013
Net cost of operations after government funding and transfers	\$ (57,186)	\$ (47,065)	\$ (82,697)
Change due to tangible capital assets (Note 10)			
Acquisition of tangible capital assets	37,653	49,077	38,762
Amortization of tangible capital assets	(43,003)	(42,146)	(43,478)
Proceeds from disposal of tangible capital assets	(228)	(577)	(333)
Net (loss) or gain on disposal of tangible capital assets including adjustments	(112)	(5,433)	(134)
Non-cash changes of tangible capital assets	158	(1,769)	154
Transfer from other government departments	-	36	448
Transfer to other government departments	-	(1)	(417)
Total change due to tangible capital assets	<u>(5,532)</u>	<u>(813)</u>	<u>(4,998)</u>
Change due to prepaid expenses and inventory	(1,847)	(61)	(2,445)
Net increase (decrease) in departmental net debt	(64,565)	(47,939)	(90,140)
Departmental net debt - Beginning of year	170,849	142,769	232,909
Departmental net debt - End of year	<u>\$ 106,284</u>	<u>\$ 94,830</u>	<u>\$ 142,769</u>

The accompanying notes form an integral part of these consolidated financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Cash Flows (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$ 2,408,814	\$ 2,715,410
Non-cash items:		
Amortization of tangible capital assets	(42,146)	(43,478)
Gain (Loss) on disposal of tangible capital assets	(5,433)	(134)
Non-cash changes of tangible capital assets	(1,769)	154
Services provided without charge by other government departments (Note 14)	(69,479)	(73,474)
Variations in Consolidated Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(15,130)	(8,235)
Increase (decrease) in prepaid expenses and inventory	(61)	(2,445)
Decrease (increase) in accounts payable and accrued liabilities	203,718	24,706
Decrease (increase) in vacation pay and compensatory leave	2,594	1,429
Decrease (increase) in deferred revenue	1,379	(881)
Decrease (increase) in employee future benefits	42,167	4,327
Decrease (increase) in other liabilities	<u>(8,056)</u>	<u>43,385</u>
CASH USED IN OPERATING ACTIVITIES	2,516,598	2,660,764
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets	49,077	38,762
Proceeds from disposal of tangible capital assets	<u>(577)</u>	<u>(333)</u>
CASH USED IN CAPITAL INVESTING ACTIVITIES	48,500	38,429
NET CASH PROVIDED BY GOVERNMENT OF CANADA	<u>\$ 2,565,098</u>	<u>\$ 2,699,193</u>

The accompanying notes form an integral part of these consolidated financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 1 - Authority and objectives

The Department of Agriculture and Agri-Food (AAFC) was originally established in 1868. Under the *Department of Agriculture and Agri-Food Act*, the Minister is responsible for agriculture, products derived from agriculture and research related to agriculture and products derived from agriculture including the operation of experimental farm stations, unless they have been assigned by law to another department, board or agency.

The Department provides information, research and technology, and policies and programs to achieve security of the food system, health of the environment and innovation for growth.

Business Risk Management

AAFC has a comprehensive suite of BRM programs to better equip producers with the tools and capacity to manage business risks. This suite provides coverage for small income declines, margin-based support for larger income losses, a disaster relief framework for rapid assistance to producers, and production insurance to protect farmers against production losses due to uncontrollable natural hazards. In addition, assistance to producers through the provision of financial guarantees facilitates the marketing of producers' products when market conditions and prices may be more favourable.

Internal Services

Internal Services are groups of related activities and resources that are administered to support all Strategic Outcomes and the needs of programs and other corporate obligations of the Department. Only those activities and resources that apply across the Department, and not those provided specifically to a program, are included.

Internal Services consists of the following groups of activities:

- Governance and Management Support, which include: Management and Oversight Services (Strategic Policy, Audit and Evaluation, Service and Program Excellence Directorate, Strategic Management, etc.); Communications Services; and Legal Services;
- Resource Management Services, which include: Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; and Other Administrative Services; and
- Asset Management Services, which include: Real Property Services; Materiel Services; and Acquisition Services.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Science, Innovation and Adoption

AAFC contributes to the competitiveness of the agriculture, agri-food and agri-based products sector by supporting innovation designed to improve profitability in new and existing products, services, processes and markets.

Coordinated and informed decision-making is supported with strategic foresight, research and information sharing that contribute to integrated planning engaging industry, government and academia. Collaborative action is promoted to accelerate the flow of science and technology along the innovation continuum in support of industry defined strategies for future success. Farmers, agri-entrepreneurs and agri-based small-, medium- and large-sized enterprises are supported in their efforts to adopt new technologies and commercialize new products and services. Pathfinding and transformational research help to define future opportunities and prepare the sector for emerging opportunities and challenges.

Trade and Market Development

AAFC acts as Canada's agricultural trade advocate, working to break down trade barriers at home and abroad and expand opportunities for the agriculture, agri-food and agri-based products sector.

AAFC assists the sector in identifying new domestic and global opportunities, markets and ways to enhance productivity, competitiveness and prosperity. AAFC also works to distinguish Canadian products under Brand Canada International and the Domestic Branding Strategy to expand and deepen the sector's strengths in the marketplace.

On-Farm Action

AAFC supports farmers through direct on-farm programming that identifies environmental risks and opportunities and promotes the continuous growth of the stewardship ethic within the agriculture and agri-food industry.

AAFC supports farmers through agri-environmental risk assessment and planning; providing expertise, information and incentives to increase the adoption of sustainable agriculture practices at the farm and landscape levels; investigating and developing new approaches that encourage and support the adoption of sustainable agriculture practices; and increasing the recognition of the value of sustainable agriculture practices.

This program supports environmental stewardship and helps reduce the sector's overall impact on the environment. It contributes to a cleaner environment and healthier living conditions for Canadian people, and a more profitable agriculture sector.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Food Safety and Biosecurity Risk Management Systems

AAFC supports producers and organizations in the development and implementation of food safety, biosecurity and traceability risk management systems to prevent and control risks to the animal and plant resource base, thus strengthening the sector against widespread diseases and losses in domestic and foreign markets.

The risk management systems are national, government-recognized on-farm and/or post-farm Hazard Analysis of Critical Control Points (HACCP) or HACCP-based food safety systems, National Biosecurity Systems and a National Agriculture and Food Traceability System. These systems also support emergency management to limit the spread of animal and plant diseases, thereby reducing economic, environmental and social impacts of a crisis. The National Animal and Plant Biosecurity Strategy provides overall policy direction, ensuring efforts are targeted at the highest possible biosecurity risks. Eligible recipients include national or regional non-profit organizations, producers and industry stakeholders.

Environmental Knowledge, Technology, Information and Measurement

AAFC is focused on supporting the sector through initiatives that enable it to use a more systematic management approach to making decisions with respect to environmental risks, and help identify suitable corrective actions. AAFC is conducting research to improve scientific understanding of agriculture's interactions with the environment on the key environmental challenges facing Canada and its regions; developing sustainable agricultural practices and validating environmental and economic performance at the farm and landscape levels; and developing, enhancing and using agri-environmental indicators, greenhouse gas accounting systems and economic indicators to assess the sector's environmental and economic sustainability. This program provides the platform for innovation and discovery of technologies and strategies to improve the agri-environmental performance of the sector.

Agri-Business Development

This program builds awareness of the benefits and encourages the use of sound business management practices, while also enabling businesses in the sector to be profitable and invest where needed to manage the natural resource base sustainably and to market and produce safe food and other products.

The Agri-Business Development program funds provincial and territorial activities related to business management practices and skills that: strengthen the capacity of businesses in the sector to assess the financial implications of business improvements, including the impact of environmental plans, food safety systems and innovation projects on their business profitability; manage transformation, respond to change and adopt innovation in business operations; help agri-business owners understand their financial situation, implement effective action and business management plans/practices and provide for enhanced participation by young or new entrants, First Nations clients, and clients in specific sub-sectors in transition.

Rural and Co-operatives Development

Rural and Co-operatives Development advances the development of rural communities and of co-operatives by providing advice to government on policies and programs affecting rural communities and co-operatives.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Canadian Pari-Mutuel Agency

Section 204 of the Criminal Code of Canada designates the Minister of Agriculture and Agri-Food as the individual responsible for the policy and regulatory functions pertaining to pari-mutuel wagering on horse races. The Canadian Pari-Mutuel Agency (CPMA) is a special operating agency within Agriculture and Agri-Food Canada that regulates and supervises pari-mutuel betting on horse racing at racetracks across Canada, with the objective of ensuring that pari-mutuel betting is conducted in a way that is fair to the betting public. Costs associated with the activities of the CPMA are recovered through a levy on every dollar bet in Canada on horse races. The levy is currently set at eight-tenths of a cent of every dollar bet. CPMA's strategic plans are focused on regulating and supervising pari-mutuel wagering on horse races in the most modern, effective and transparent manner.

Regulatory Efficiency Facilitation

This program involves collaborating with industry and regulatory agencies to address domestic regulatory-related gaps and issues that impede competitiveness. It helps facilitate industry-responsive regulatory modernization, and assists sector stakeholders to work within existing regulatory infrastructures and adapt to new approaches to regulation. These objectives are achieved through three areas of activity: 1) Pest Management: Pesticides Minor Use Program, 2) Pest Management: Pesticides Risk Reduction Program, and 3) Facilitating Industry Adaptation to Regulatory Modernization.

Farm Products Council of Canada

Established under the Farm Products Agencies Act (the Act), the Farm Products Council of Canada (FPCC) is a unique public interest oversight body that reports to Parliament through the Minister of Agriculture and Agri-Food (the Minister).

The Act provides for the creation of national marketing agencies, which are not subject to the Competition Act, as well as promotion-research agencies. The FPCC supervises these agencies, and works with them to ensure that the supply management system for poultry and eggs and promotion-research activities for beef cattle work in the balanced interest of all stakeholders, from producers to consumers, and can evolve to respond to current and future challenges.

The FPCC also provides advice and recommendations to the Minister, collaborates with provincial supervisory boards and actively works with the Department and Agriculture and Agri Food Portfolio organizations.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 2 - Summary of significant accounting policies

These consolidated financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

- (a) **Parliamentary authorities** – The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the consolidated future-oriented financial statements included in the 2013-2014 Report on Plans and Priorities.
- (b) **Consolidation** – These consolidated financial statements include the accounts of the sub-entities that the deputy head (DH) is accountable for. The accounts of these sub-entities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The accounting entity comprises the Department of Agriculture and Agri-Food, the Farm Products Council of Canada, Canada Agricultural Review Tribunal and the Canadian Pari-Mutuel Agency. The consolidated financial statements do not include the accounts of the Canadian Food Inspection Agency, the Canadian Wheat Board, the Canadian Grain Commission, the Canadian Dairy Commission and Farm Credit Canada because they are not under the control of Agriculture and Agri-Food Canada and therefore, are not consolidated.
- (c) **Net Cash Provided by Government** – The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.
- (d) **Amounts due from or to the Consolidated Revenue Fund** are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(e) Revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge the Department's liabilities.

While the DH is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented as a reduction to the entity's gross revenues

(f) Expenses – Expenses are recorded on the accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met all eligibility criteria and entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the consolidated financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

(g) Employee future benefits:

- (i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department's responsibility with regard to the Plan is limited to its

contributions. Actuarial surpluses or deficiencies are recognized in the consolidated financial statements of the Government of Canada, as the Plan's sponsor.

- (ii) Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.
- (h) Accounts and loans receivable are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.
- (i) Contingencies – Contingencies are potential recoveries or liabilities which may become actual recoveries or liabilities when one or more future events occur or fail to occur.
 - (i) Contingent liabilities – To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements.
 - (ii) Contingent recoveries – Contingent gains are not accrued in consolidated financial statements. However, a contingent gain which is considered likely to be realized is disclosed in the notes to the consolidated financial statements.
- (j) Loan and price guarantees – An allowance on loans or price guarantees is recorded in the accounts when it is likely that a payment will be made to honour a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined based on historical loss experience and economic conditions adversely affecting the capacity of borrowers to reimburse the loan. The allowance is reviewed on a regular basis and the variations are recorded in the consolidated statement of operations.

- (k) **Environmental liabilities** – Environmental liabilities consist of estimated costs related to the remediation of environmentally contaminated sites as well as estimated costs related to obligations associated with future asset restoration.
- (i) Remediation liabilities are recorded as accrued liabilities to recognize the estimated costs related to the management and remediation of contaminated sites where the Department is obligated, or likely to be obligated, to remediate the sites. If the responsibility to remediate is undeterminable, the amount is disclosed as a contingent liability. If the responsibility to remediate is undeterminable and a reasonable estimate cannot be made, the nature, source and extent of contamination is disclosed as a contingent liability.
 - (ii) Future Asset Restoration Obligations are recorded as accrued liabilities to recognize the estimated costs related to the restoration of tangible capital assets. These costs are usually capitalized and amortized over the asset's estimated useful life based on an obligation imposed by legislation, regulation or contractual agreement where the Department is obligated, or likely to be obligated, to restore the tangible capital asset. If the obligation to restore the tangible capital asset is undeterminable, the amount is disclosed as a contingent liability. If the obligation to restore the tangible capital asset is undeterminable and an estimate cannot be made, the nature and source of the potential obligation is disclosed as a contingent liability.
- (l) **Tangible capital assets** – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value and museum collections. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

ASSET CLASS	AMORTIZATION PERIOD
Buildings	20 to 30 years
Works and infrastructure	15 to 40 years
Machinery and equipment	5 to 20 years
Vehicles	7 to 25 years
Computer Hardware and Software	3 to 5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

- (m) Measurement uncertainty – The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, allowance for loan guarantees, the useful life of tangible capital assets, the liability for employee future benefits and environmental liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the consolidated financial statements in the year they become known.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 3 - Parliamentary Authorities

The Department receives most of its funding through annual Parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and the Consolidated Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used:

	<u>2014</u>	<u>2013</u>
Net cost of operations before government funding and transfers	\$ 2,408,814	\$ 2,715,410
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(42,146)	(43,478)
Gain (Loss) on disposal of tangible capital assets	(5,433)	(134)
Non cash changes of tangible capital assets	(1,769)	154
Services provided without charge by other government departments	(69,479)	(73,474)
Increase (decrease) in prepaid and inventory	(61)	(2,445)
Increase (decrease) in restricted accounts	(278)	(2,016)
Decrease (increase) in vacation pay and compensatory leave	2,594	1,429
Decrease (increase) in accrued liabilities	10,564	40,816
Decrease (increase) in employee future benefits	46,315	4,327
Decrease (increase) in allowances for bad debt expenses	(29,312)	(11,947)
Refund and adjustment of prior years' expenditures	(13,401)	10,006
Respendable revenue	5,119	4,408
Other	<u>1,350</u>	<u>(2,284)</u>
	(95,937)	(74,638)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	49,077	38,762
Proceeds from disposal of tangible capital assets	(577)	(333)
Increase (decrease) in loan receivables	<u>25,522</u>	<u>2,358</u>
	74,022	40,787
Current year authorities used	<u>\$ 2,386,899</u>	<u>\$ 2,681,559</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(b) Authorities provided and used:

	<u>2014</u>	<u>2013</u>
AUTHORITIES PROVIDED:		
Vote 1 - Operating expenditures	\$ 730,684	\$ 737,219
Vote 5 - Capital expenditures	34,849	34,882
Vote 10 - Transfer payments	447,925	632,129
Statutory amounts	<u>1,343,128</u>	<u>1,479,926</u>
	2,556,586	2,884,156
Less:		
Authorities available for future years	14,108	8,907
Lapsed authorities	<u>155,579</u>	<u>193,690</u>
	169,687	202,597
CURRENT YEAR AUTHORITIES USED	<u>\$ 2,386,899</u>	<u>\$ 2,681,559</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 4 - Accounts payable and accrued liabilities

The following table presents details of the Department's accounts payable and accrued liabilities:

	<u>2014</u>	<u>2013</u>
Accounts payable to other government departments and agencies	\$ 26,918	\$ 45,975
Accounts payable to external parties	<u>813,764</u>	<u>981,305</u>
	840,682	1,027,280
Accrued liabilities	<u>68,625</u>	<u>85,745</u>
Total accounts payable and accrued liabilities	<u>\$ 909,307</u>	<u>\$ 1,113,025</u>

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, the Department has recorded at March 31, 2014 an obligation for termination benefits for an amount of \$7,985,000 (\$10,304,000 in 2012-2013) as part of accrued liabilities to reflect the estimated workforce adjustment costs.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)
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Note 5 - Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming mainly from joint collaborative agreements and cost-sharing agreements which are restricted to fund the expenditures related to specific research projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	<u>2014</u>	<u>2013</u>
Opening balance	\$ 13,983	\$ 13,102
Amounts received	4,998	6,418
Revenue recognized	<u>(6,377)</u>	<u>(5,537)</u>
Closing balance	<u>\$ 12,604</u>	<u>\$ 13,983</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 6 - Employee future benefits

(a) Pension benefits

The Department's employees participate in the public service pension plan (the "Plan"), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. Due to the amendment of the Public Service Superannuation Act following the implementation of provisions related to EAP 2012, employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2013-2014 expense amounts to \$56,054,566 (\$58,088,849 in 2012-2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 times in 2012-2013) the employee contributions and, for Group 2 members, approximately 1.5 times (1.6 times in 2012-2013) the employee contributions.

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the consolidated financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes were given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation. Information about the severance benefits, measured as at March 31, is as follows:

	2014	2013
Accrued benefit obligation - Beginning of year	\$ 77,619	\$ 81,946
Expense for the year	6,584	13,962
Benefits paid during the year	(48,751)	(18,289)
Accrued benefit obligation - End of year	\$ 35,452	\$ 77,619

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

Note 7 - Other liabilities

The Department holds funds in trust from the AgriInvest program, the AgriStability program as well as security deposits.

AgriInvest is a producer savings account program that replaces the coverage for smaller income declines that was provided by previous programs. Program payments are cost-shared with the province or territory which producers can withdraw under specific terms and conditions. Since 2010, producers now make their AgriInvest deposits at a participating financial institution of their choice. As such, existing funds held by the federal government are being transferred to the producer's AgriInvest account held at the financial institutions.

The AgriStability program helps producers protect their farming operations against larger drops in income. Program payments are shared 60% federally and 40% provincially/territorially. The provincial/territorial share of the contributions and interest paid on the contributions are held in a specified purpose account until the producers draw down their funds.

AgriInvest, AgriStability and security deposit account activity during the year was as follows:

	<u>2014</u>	<u>2013</u>
Opening balance	\$ 72,205	\$ 115,590
Deposits	418,789	383,105
Withdrawals	<u>(410,733)</u>	<u>(426,490)</u>
Ending balance	<u>\$ 80,261</u>	<u>\$ 72,205</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 8 - Accounts receivable and advances

The following table presents details of the Department's accounts receivable balances:

	<u>2014</u>	<u>2013</u>
Receivables from other government departments and agencies	\$ 22,793	\$ 27,946
Receivables from external parties	64,870	85,171
Employee advances	<u>71</u>	<u>69</u>
Subtotal	87,734	113,186
Allowance for doubtful accounts on receivables from external parties	<u>(26,558)</u>	<u>(30,301)</u>
Gross accounts receivable	<u>61,176</u>	<u>82,885</u>
Accounts receivable held on behalf of Government	13,972	20,526
Allowance for doubtful accounts held on behalf of Government	<u>(64)</u>	<u>(39)</u>
Net Accounts receivable held on behalf of Government	<u>13,908</u>	<u>20,487</u>
Net accounts receivable	<u>\$ 47,268</u>	<u>\$ 62,398</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 9- Loans receivable

The following table presents details of the Department's loans receivable and program advances balances:

	2014	2013
Transfer payments recoverable	\$ 83,127	\$ 53,919
Loans resulting from loan guarantee programs	<u>500,402</u>	<u>452,974</u>
Subtotal	583,529	506,893
Less: Allowance for uncollectibility	<u>(240,651)</u>	<u>(167,640)</u>
Gross loans receivable	<u>342,878</u>	<u>339,253</u>
Loans receivable held on behalf of Government	<u>342,878</u>	<u>339,253</u>
Net loans receivable	\$ -	\$ -

(a) Transfer payments recoverable

Transfer payments recoverable relate to contributions made to outside parties which are repayable based on conditions specified in the contribution agreement that have come into being. An allowance of \$17,193,000 (\$8,941,000 in 2013) has been recorded.

(b) Loans resulting from loan guarantee programs

The Department's loan receivables are the result of the exercise of loan guarantees by the initial lender under the terms of various loan guarantee programs. These loans are in default with the initial lender and due immediately to the Department. Interest rates on these loans vary according to the initial terms of the loans and applicable government regulations. An allowance of \$223,458,000 (\$158,699,000 in 2013) relating to these loans has been recorded.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)
For the Year Ended March 31
(tabular amounts in thousands of dollars)

Note 10 - Tangible capital assets

CAPITAL ASSET CLASS	COST				DISPOSALS AND WRITE- OFFS	CLOSING BALANCE
	OPENING BALANCE	ACQUISITIONS	ADJUSTMENTS ⁽¹⁾			
Land	\$ 13,031	\$ -	\$ 9	\$ -	41	\$ 12,999
Buildings	620,979	78	19,327	12,618	12,618	627,766
Works and infrastructure	60,830	20	1,587	2,129	2,129	60,308
Machinery and equipment	187,904	18,513	(512)	7,128	7,128	198,777
Vehicles	69,217	4,753	(124)	4,283	4,283	69,563
Leasehold improvements	24,139	-	3,057	-	-	27,196
Computer hardware and software	41,462	244	-	112	112	41,594
Assets under construction	34,840	25,469	(23,975)	370	370	35,964
	\$ 1,052,402	\$ 49,077	\$ (631)	\$ 26,681		\$ 1,074,167

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

ACCUMULATED AMORTIZATION

CAPITAL ASSET CLASS	OPENING BALANCE	AMORTIZATION	ADJUSTMENTS ⁽¹⁾	DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
Land	\$ -	\$ -	-	\$ -	\$ -
Buildings	429,101	18,179	-	7,410	439,876
Works and infrastructure	26,310	1,696	6	2,036	27,387
Machinery and equipment	128,961	10,061	1,417	6,990	131,793
Vehicles	44,089	4,495	(239)	4,122	44,381
Leasehold improvements	17,902	983	(81)	-	18,885
Computer hardware and software	30,638	6,732	-	113	37,257
Assets under construction	-	-	-	-	-
	<u>\$ 677,001</u>	<u>\$ 42,146</u>	<u>\$ 1,103</u>	<u>\$ 20,671</u>	<u>\$ 699,579</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

NET BOOK VALUE

CAPITAL ASSET CLASS	2014	2013
Land	\$ 12,999	\$ 13,031
Buildings	187,890	191,878
Works and infrastructure	32,921	34,520
Machinery and equipment	66,984	58,943
Vehicles	25,182	25,128
Leasehold improvements	8,311	6,237
Computer hardware and software	4,337	10,824
Assets under construction	35,964	34,840
	<u>\$ 374,588</u>	<u>\$ 375,401</u>

- (1) Adjustments include assets under construction of \$23,975,000 that were transferred to the other categories upon completion of the assets.

During the fiscal year 2014, the Department received machinery and equipment from other government departments with a net book value of \$35,704. The Department transferred machinery and equipment to another government department with a net book value of \$1,120.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 11 – Departmental net financial position

A portion of the Department's net financial position is used for a specific purpose. Related revenues and expenses are included in the Consolidated Statement of Operations and the Departmental Net Financial Position. The Department operates two programs which under legislation require that the revenues be earmarked to offset the expenses of the program.

The Crop Re-insurance Fund was established pursuant to the *Farm Income Protection Act*. This program provides insurance to participating provinces for costs they incur in operating crop insurance programs. The fund records receipts and disbursements under the terms of reinsurance agreements. When there are insufficient revenues to meet payments, the Minister of Finance may authorize an advance of additional funds to cover these obligations.

The Agricultural Commodities Stabilization Accounts were established pursuant to the *Agricultural Stabilization Act*, under which the commodity accounts formerly operated, and has since been repealed and replaced by the *Farm Income Protection Act* effective April 1, 1991. The purpose of these accounts was to reduce income loss to producers from market risks through stabilizing prices. Premiums were shared equally by the Government of Canada, the governments of participating provinces and participating producers. Current activities are limited to collection of accounts receivable.

The balances of the accounts at the end of the year are included in the Consolidated Statement of Change in Departmental Net Debt. Activities in these accounts are as follows:

	2014	2013
Crop Re-insurance Fund - Restricted		
Balance - Beginning of year	\$ 201,820	\$ 123,433
Revenues	80,562	80,403
Expenses	(278)	(2,016)
Balance-end of year	282,104	201,820
 Agricultural Commodities Stabilization Accounts - Restricted	647	647
 Unrestricted	570	33,789
 Departmental net financial position-End of year	<u>\$ 283,321</u>	<u>\$ 236,256</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

Note 12 - Contractual Obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payment programs. Significant non revocable contractual obligations that can be reasonably estimated are summarized as follows:

	2015	2016	2017	2018	2019 AND THEREAFTER	TOTAL
TRANSFER PAYMENTS	\$ 321,080	\$ 300,277	\$ 272,745	\$ 268,432	\$ 53,200	\$ 1,215,734

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 13 – Contingencies

Contingencies arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into five categories as follows:

(a) Environmental Liabilities

The Department has identified approximately 15 sites (14 sites in 2012-2013) where the department is obligated, or likely to be obligated, to remediate for which a remediation liability of \$1,513,644 (\$856,349 in 2012-2013) has been recorded in accrued liabilities. In addition, the Department has disclosed a contingent liability in the amount of \$0 (\$2,724,647 in 2012-2013 for 38 sites) where the department has determined that it is not directly responsible, nor does it accept responsibility, however, there is uncertainty as to whether the department may be responsible. The Department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments of existing sites. These liabilities will be accrued by the Department in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The Department has also been named in other legal claims against the Government of Canada, related to the agricultural industry, for which amounts and likelihood of liability cannot be determined. The limited disclosure regarding the contingent liabilities for legal claims recognized by the Department is a direct reflection of the sensitivity and status of on-going claims.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(c) Loan or price guarantees

	AUTHORIZED LIMIT	OUTSTANDING GUARANTEES		ALLOWANCE AS AT MARCH 31	
		2014	2013	2014	2013
Loans according to the Advance Payments Program under the <i>Agricultural Marketing Programs Act</i>	\$ 5,000,000	\$ 1,445,084	\$ 945,847	\$ 53,967	\$ 77,339
Loans to farmers under the <i>Canadian Agricultural Loans Act</i>	3,000,000	105,130	99,363	1,051	994
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the <i>Agricultural Marketing Programs Act</i>	No limit	18,363	21,258	-	-
National Biomass Ethanol Program	140,000	24,960	24,960	-	-
		\$ 1,593,537	\$ 1,091,428	\$ 55,018	\$ 78,333

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The allowance for losses is the amount recorded for estimated losses on outstanding loan guarantees and which is included in accrued liabilities. No allowance has been recorded for the Price Pooling Program of the *Agricultural Marketing Programs Act* and for the National Biomass Ethanol Program as no costs are likely to occur.

Under the Advance Payments Program of *Agricultural Marketing Programs Act*, the Department guarantees the repayment of advances made by producer organizations to farmers in the spring and in the fall, creating a more stable business environment. The maximum cash advance of the program is \$400,000. The loans generally have a repayment term of 18 months.

Under the *Canadian Agricultural Loans Act*, the Department guarantees loans by financial institutions to farmers for improvement and development of farms, and the processing, distribution or marketing of farm products. This program guarantees 95 percent of the value of loans provided to farms and co-operatives by financial institutions. For individual applicants, including corporations, the maximum amount for a *Canadian Agricultural Loans Act* loan is \$500,000. Most loans are repayable within ten years. For loans on land purchases, the repayment period is 15 years.

Under the Price Pooling Program of the *Agricultural Marketing Programs Act*, the Department provides a price guarantee that protects marketing agencies and producers against unanticipated declines in the market price of their products.

The Minister of Agriculture and Agri-Food is authorized to guarantee Line of Credit Agreements entered into by Farm Credit Canada under the National Biomass Ethanol Program.

(d) Transfer Payments - Conditionally Repayable Contributions

Under the Ruminant Slaughter Loan Loss Reserve Program, which ended in 2007, conditionally repayable contributions which are outstanding in 2014 total \$6,762,785 (\$6,695,517 in 2013). The funds contributed and accumulated interest are repayable within 10 years and no later than December 31, 2017, net of the amounts used to cover a portion of the loan defaults.

Under the EcoAgriculture Biofuels Capital Initiative, conditionally repayable contributions which are outstanding in 2014 total \$57,729,023 (\$58,855,012 in 2013). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years and no later than March 31, 2023.

Under the Slaughter Improvement Program, conditionally repayable contributions which are outstanding in 2014 total \$45,258,933 (\$49,703,001 in 2013). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years. The final payment is due no later than June 1, 2024.

Under the Slaughter Waste Innovation Program, conditionally repayable contributions have been issued for a total amount of \$22,620,635 (\$23,720,497 in 2013). Repayments are determined by a project's profitability as well as whether and how a project demonstrates the destruction or deactivation of Specified Risk Material. Contributions have a maximum repayment period of 10 years and the final payment is due no later than March 31, 2024.

The amounts that will become repayable cannot be currently estimated. The contributions bear interest rates either at the cost of capital of the lender or at the Government of Canada 90-day bond rate, as per initial agreements with the lender.

(e) Contingent Recoveries

AgriStability and Canadian Agricultural Income Stabilization (CAIS) programs are federally and provincially/territorially cost shared programs and CAIS Inventory Transition Initiative (CITI) is a federally funded program. When provincial/territorial governments deliver these programs and overpayments occur, the federal government is entitled to recover its share of funding if and when overpayments are recovered. The Department has estimated the contingent recoverable amount as \$8,466,458 (\$10,725,834 in 2013). Contingent recoveries are not recorded in the consolidated financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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Note 14 - Related Party Transactions

The Department is related as a result of common ownership to all Government departments, agencies, and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

(a) Common services provided without charge by other government departments

During the year the Department received services without charge from certain common service organizations, related to the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation coverage. These services provided without charge have been recorded in the Department's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

	2014	2013
Employer's contribution to the health and dental insurance plans	\$ 41,110	\$ 43,653
Accommodation	25,882	27,223
Legal services	1,135	1,369
Workers' Compensation	<u>1,352</u>	<u>1,229</u>
	<u>\$ 69,479</u>	<u>\$ 73,474</u>

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in the Department's Consolidated Statement of Operations and Departmental Net Financial Position.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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(b) Other transactions with related parties

	2014	2013
Expenses - Other Government departments and agencies	\$ 146,906	\$ 144,745
Revenues - Other Government departments and agencies	\$ 15,210	\$ 12,005

Expenses and revenues disclosed in (b) exclude common services provided without charge, which are already disclosed in (a).

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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Note 15 - Transfers to other government departments

On April 3, 2013, SSC was given the mandate to provide services related to the acquisition and provision of hardware and software, including security software, for workplace technology devices. The expenses related to these services in 2014 are \$0 (\$430,532 for 2013).

In addition, the 2013 comparative figures have been reclassified on the Consolidated Statement of Operations and Departmental Net Financial Position to present the revenues and expenses of the transferred operations. The net cost from continuing operations decreased by \$430,532.

During the transition period, the Department continued to administer the transferred activities on behalf of Shared Services Canada. The administered expenses amounted to \$501,320 for the year. These expenses are not recorded in these financial statements.

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Note 16 - Segmented information:

Presentation by segment is based on the Department's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

*	BRM	IS	SIA	TMD	OFA	RMS	EKTIM	ABD	RCD	CPMA	REF	FPCC	2014 TOTAL	2013 TOTAL
EXPENSES														
Transfer payments	\$ 1,204,880	\$ (364)	\$ 87,329	\$ 72,890	\$ 37,747	\$ 34,613	\$ -	\$ 43,705	\$ (57)	\$ -	\$ -	\$ -	\$ 1,480,743	\$ 1,832,315
Salaries and employee benefits	20,005	198,985	193,711	48,382	17,536	34,041	51,586	3,613	2,268	3,258	7,554	1,970	583,519	619,214
Professional and other services	8,637	48,368	29,681	9,876	1,055	3,955	3,115	1,869	85	3,416	2,144	428	112,629	118,211
Allowance for loan guarantees and bad debts	75,498	7,650	-	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies	57	11,449	25,970	334	6,083	3,075	1,153	9	-	82	328	50	84,148	25,713
Amortization of tangible capital assets	-	-	-	-	-	-	-	-	-	-	-	-	48,590	50,326
Accommodation	2	41,729	-	-	-	-	-	-	-	-	-	-	-	-
Travel	193	36,159	9,854	89	24,921	2,900	1,103	(6)	(8)	417	158	37	42,146	43,478
Repairs and maintenance	98	1,989	4,363	2,370	323	662	490	61	90	525	158	179	75,794	40,569
Electricity and other public services	-	12,230	2,820	32	1,350	247	520	-	-	64	168	-	10,952	12,250
Crop Re-insurance Fund	278	1	12,543	1	451	2,125	1,512	-	-	57	112	-	17,466	19,027
Expenses incurred on behalf of Government	-	-	-	-	-	-	-	-	-	8	72	-	18,713	15,446
TOTAL EXPENSES	1,310,648	358,125	366,271	133,974	89,466	81,618	59,489	49,251	2,378	8,427	10,536	2,664	2,472,847	2,778,550
REVENUES														
Crop Re-insurance Fund	80,562	-	-	-	-	-	-	-	-	-	-	-	80,562	80,409
Sale of goods and services	1,480	16,938	21,700	-	22,266	251	58	3	19	10,158	38	-	72,905	71,927
Interest	2,965	15,247	125	1	31	7	66	-	-	73	-	-	18,516	12,143
Joint project and cost sharing agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on disposal of assets	-	6,246	-	-	-	-	-	-	-	-	-	-	6,246	5,535
Revenues earned on behalf of Government	-	1,690	-	-	-	-	-	-	-	-	-	-	1,690	942
Total revenues	184,472	(25,012)	(5,645)	(1)	(341)	(37)	(102)	(3)	(13)	10,291	(38)	-	(115,885)	(106,779)
	534	15,109	16,180	-	21,956	1	22	-	-	-	-	-	64,033	63,571
NET COST FROM CONTINUING OPERATIONS	\$ 1,130,114	\$ 343,016	\$ 350,091	\$ 133,974	\$ 67,510	\$ 81,617	\$ 59,487	\$ 49,251	\$ 2,378	\$ (1,804)	\$ 10,536	\$ 2,664	\$ 2,408,814	\$ 2,714,979

*BRM - Business Risk Management; IS - Internal Services; SIA - Science, Innovation and Adoption; TMD - Trade and Market Development; OFA - On-Farm Action; RMS - Food Safety and Biosecurity Risk Management Systems; EKTIM - Information and Measurement; ABD - Agri-Business Development; RCD - Rural and Co-operatives Development; CPMA - Canadian Papi-Mutual Agency; REF - Regulatory Efficiency Facilitation; FPCC - Farm Products Council of Canada.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 17 - Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

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Note to the Reader

In accordance with the Treasury Board *Policy on Internal Control*, departments are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

Under this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their *Statements of Management Responsibility* a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- applicable laws, regulations and policies are followed.

The system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2013-2014 (unaudited)

1. Introduction

This document provides summary information on the measures taken by Agriculture and Agri-Food Canada to maintain an effective system of internal control over financial reporting, including information on internal control management, assessment results and related action plans.

1.1 Authority, Mandate and Program Activities

Detailed information on the department's authority, mandate and program activities can be found in the 2013-14 Departmental Performance Report and the 2013-14 Report on Plans and Priorities.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2013-2014 (unaudited)

2. Agriculture and Agri-Food Canada's System of Internal Control Over Financial Reporting

Agriculture and Agri-Food Canada recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. Agriculture and Agri-Food Canada's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Internal Control Management

Agriculture and Agri-Food Canada has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Head, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- Principles of an effective system of ICFR and the department's assessment approach;
- Periodic internal reporting on the annual assessments through various forms such as: communications of results and recommendations to business process owners, presentations to the Departmental Audit Committee, and adhoc reports and presentations to senior management.

Key Positions, Roles and Responsibilities

Below are Agriculture and Agri-Food Canada's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Deputy Head - Agriculture and Agri-Food Canada's Deputy Head, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Head is advised by the Departmental Audit Committee and the Departmental Management Committee.

Chief Financial Officer (CFO) - Agriculture and Agri-Food Canada's CFO reports directly to the Deputy Head and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment. Falling under the CFO responsibilities is also the management of the Corporate Risk Profile of Agriculture and Agri-Food Canada.

Senior Departmental Managers - Agriculture and Agri-Food Canada's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2013-2014 (unaudited)

Chief Audit Executive (CAE) - Agriculture and Agri-Food Canada's CAE reports directly to the Deputy Head and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

Departmental Audit Committee (DAC) - The DAC is an advisory committee that provides objective views on the department's risk management, control and governance frameworks. It is comprised of four external members and was established in 2008. The DAC reviews Agriculture and Agri-Food Canada's Corporate Risk Profile and its system of internal control, including internal and external audit reports and the assessment and action plans relating to the system of ICFR.

Departmental Management Committee (DMC) - As the Agriculture and Agri-Food Canada's central decision-making body, the DMC reviews, approves and monitors the Corporate Risk Profile and the departmental system of internal controls, including the system of ICFR.

Horizontal Management Committee (HMC) - The HMC is chaired by the Associate Deputy Minister and guides horizontal management and provides oversight of human resources, finances, information management and systems, communications and assets, to support current and emerging business needs.

Policy and Programs Management Committee (PPMC) - Deputy Minister level committee responsible for guiding the development and implementation of cohesive and comprehensive policies, programs and services, and monitoring of results.

2.1.1 Key Measures taken by Agriculture and Agri-Food Canada

Agriculture and Agri-Food Canada's control environment also includes a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant are:

- Departmental Ethics Office and Code of Ethics which provides information and support to staff on ethical issues;
- Security Guidelines relating to the overall security program including elements of information and personnel security;
- Guidelines for managers, supervisors, and employees for the internal disclosure of wrongdoing;
- Departmental policies tailored to the Department's control environment;
- Regularly updated delegated authorities matrix;
- Training program and communications in core areas of financial management; and
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR.

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2.2 Service Arrangements Relevant to Financial Statements

Agriculture and Agri-Food Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows.

Common Arrangements

- Public Works and Government Services Canada centrally administers the payments of salaries and the procurement of goods and services in accordance with the Agriculture and Agri-Food Canada's Delegation of Authority, and provides accommodation services;
- The Treasury Board of Canada Secretariat provides Agriculture and Agri-Food Canada with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice Canada provides legal services to Agriculture and Agri-Food Canada; and
- Shared Services Canada provides information technology (IT) infrastructure services to Agriculture and Agri-Food Canada in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and Agriculture and Agri-Food Canada.

Specific Arrangements

- Agriculture and Agri-Food Canada administers a shared instance of SAP that includes Agriculture and Agri-Food Canada, Natural Resources and Canadian Food Inspection Agency;
- Agriculture and Agri-Food Canada provides Canadian International Development Agency, Parks Canada, Canadian Space Agency and Heritage Canada with SAP hosting services which includes system back-ups and kernel upgrades; and
- Agriculture and Agri-Food Canada administers a shared instance of Peoplesoft that includes Agriculture and Agri-Food Canada and its portfolio partners (the Canadian Grain Commission and the Canadian Dairy Commission), the Canadian Food Inspection Agency, Health Canada, the Public Health Agency of Canada, the Department of Fisheries and Oceans and Shared Services Canada.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2013-2014 (unaudited)

3. Agriculture and Agri-Food Canada's Assessment Results during fiscal year 2013-2014

Agriculture and Agri-Food Canada has developed baseline architecture of all key control points for business process and main IT systems that have been based on and assessed against the Common Financial Management Business Process developed by the Office of the Comptroller General. The department has adopted an ongoing risk-based monitoring approach to support testing of ICFR. Under this approach, all business cycle controls, information technology general controls and entity level controls are assigned a risk rating of high, medium, or low. High risk areas are assessed annually, medium risk at least every two years, and low risk at least every three years.

In completing ongoing monitoring of its key controls, Agriculture and Agri-Food Canada first confirmed that there were no material changes within the department that would impact the departmental system of ICFR and warrant an adjustment to the planned ongoing monitoring schedule for fiscal year 2013-2014. As no changes were required, the department completed validation and testing of documented controls for the key areas described in Section 3.2.

3.1 Ongoing Monitoring Program

Adopting the ongoing monitoring schedule outlined in the department's annex for 2012-2013, Agriculture and Agri-Food Canada validated and tested internal controls in the following areas during 2013-2014:

- **Business Cycle Controls**
 - Financial close and reporting
 - Budgeting and forecasting
 - AgriStability
 - AgriInvest
 - AgriInsurance
 - Generic grants and contributions
 - Revenues
- **Information Technology General Controls (ITGCs)**
 - Security
 - Change Management

The ITGCs testing also included the SAP process and controls performed by the department as an administrator and service provider under service arrangements to other federal government departments.

The testing period for these controls covered January 1, 2013 to December 31, 2013.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2013-2014 (unaudited)

In addition, Agriculture and Agri-Food Canada documented and tested design and operating effectiveness of the system of internal controls for Peoplesoft related to the department's role as an administrator and service provider under service arrangements to other federal government departments. This assessment expanded on previous assessments and testing that was completed on the Peoplesoft system to also look at information technology general controls in the following areas as they relate to the overall administration of the Peoplesoft system:

- **Information Technology General Controls**
 - Operations
 - Security
 - Change Management

Agriculture and Agri-Food Canada completed operating effectiveness testing of all internal control areas identified for assessment in FY 2013-2014 according to the departmental ICFR program. During this testing, it was noted the Department has a number of good key controls designed and implemented and operating effectively. Progress is continuing to address recommendations for improvement identified in 2012-2013 where corrective action required more time to complete. Areas noted for improvement during the 2013-14 assessment, which includes service provider assessments for SAP and Peoplesoft, are as follows:

- **Business Cycle Controls**
 - Implement a formal monitoring process for Journal Entries;
 - For some business processes, ensure individual SAP user access is based on position requirements;
 - Continue to work with other entities external to the department, such as Canada Revenue Agency and the Provinces, to ensure assurance over data provided to support calculations;
 - Implement a monitoring process for contract billing dates;
 - For a few specific control activities, ensure adequate documentation is retained to evidence completion; and
 - In a few of sub-processes, improve the department's documentation of the formal review and approval of certain key elements to ensure that evidence of these reviews exists;
- **Information Technology General Controls**
 - Continue to review system access privileges to ensure system access is appropriately restricted, and segregation of duties exists between system development and production; and
 - Enhance documentation and approvals for granting logical system access for certain IT systems.

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Where feasible, specific corrective actions were implemented shortly after necessary adjustments were identified. Otherwise, management action plans either have been or are currently being developed to fully address the control weaknesses within a reasonable timeframe. A follow-up will be performed on each of the remediation measures in 2014-15 to ensure that they are being implemented as planned.

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4. Agriculture and Agri-Food Canada's Action Plan

4.1 Progress during fiscal year 2013-14

The department achieved its commitments for 2013-2014 from the 2012-2013 action plan by completing of activities as follows:

- Completed. Based on the department's ongoing monitoring strategy, assessed Financial Close and Reporting, Budgeting and Forecasting, IT Security, IT Change Management, AgriStability, AgriInvest, AgriInsurance, Generic Grants and Contributions and Revenues.
- Completed. The department has completed documentation and testing of internal controls for the administration of Peoplesoft and related services provided to other government departments.
- Substantially completed. The department has made significant progress to address most areas for improvement noted during previous assessments.

4.2 Action Plan for the Next Fiscal Year and Subsequent Years

Under the *Policy on Internal Control*, departments need be able to maintain an effective system of ICFR with the objectives to provide reasonable assurances that a) transactions are appropriately authorized, b) financial records are properly maintained, c) assets are safeguarded and d) applicable laws, regulations and policies are followed.

Agriculture and Agri-Food Canada is positioned to take corrective measures in 2014-2015 to improve controls in the areas noted during testing this year. The department will also proceed with ongoing risk-based monitoring of key ICFR based on the following cycle:

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Key Control Areas		Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
High Risk (Annual)	Financial Close & Reporting	X	X	X
	Budgeting and Forecasting	X	X	X
	New Transfer Payment Programs	X	X	X
	IT Security	X	X	X
	IT Change Management	X	X	X
Medium Risk (2 year cycle)	AgriStability		X	
	AgriInvest		X	
	AgriInsurance		X	
	Generic Grants and Contributions		X	
	Capital Assets	X		X
	Loan Guarantees	X		X
	IT Operations	X		X
Low Risk (3 year cycle)	Operating Expenditures		X	
	Payroll	X		
	Revenues			X
	IT Backups		X	
	Entity Level Controls	X		